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RUEHRL/AMEMBASSY BERLIN 6870
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SUBJECT: UNEXEPCTED DIFFICULTIES IN PARIS CLUB NEGOTIATION WITH
DJIBOUTI

11. (SBU) Summary. What should have been easy negotiations with Djibouti during the second day of the October 2008 Paris Club meeting turned out to be unexpectedly difficult due to a knotty problem of inter-creditor equity and to Djibouti's last-minute desire to exclude some loans that had already been reconciled. Creditors agreed to provide a fairly generous Evian Terms treatment to Djibouti. After spirited discussion, creditors agreed to include a sentence indicating that certain debts could be removed from the agreement, but only by mutual consent. The Finance Minister did not appear for the negotiation, and the Finance Ministry's Secretary General appeared clearly uncomfortable assuming negotiating authority in his absence. He ended the long day after signing the agreement by stating this was only the first step and that the real negotiations would begin during completion of bilateral agreements. End Summary.

12. (SBU) The second day of the meeting was occupied with negotiations of Evian Terms treatment to support Djibouti's new PRGF. It had been expected that the negotiations would be very straightforward, but this proved not to be the case. Part of the problem was that the Djiboutians were ill-prepared. Their letter to the Club requesting treatment had not specified the treatment they sought, and they seemed not to know what was expected of them. The Finance Minister did not appear all day, despite the fact that he was in Paris and strenuous efforts were made to reach him. Instead the negotiations were conducted by the Finance Ministry Secretary-General, who clearly felt that he lacked the needed authority.

13. (SBU) Agreement on terms was reached fairly easily, with the country being granted Houston terms on pre-cut-off debt, with 100% deferral on post cut-off and short term debts and on moratorium interest. The major sticking point was one of inter-creditor equity

- Djibouti had requested that debts of Djibouti's port authority - guaranteed by the Netherlands - be excluded, on the grounds that the port dominated the economy, was financially viable, and was current on its debts. The Djibouti delegation raised a fear that a restructuring could threaten the viability of the port or have a negative impact on its operator, Dubai Ports Authority, the major investor in the country.

¶4. (SBU) Spain objected on the grounds that all of the Netherlands' claims would be excluded from rescheduling, while its own claims - most of which were in arrears - would be treated. This would be in clear violation of the principles in the new working paper on seniority. (Germany was in a similar position to Spain, with even larger arrears, but was relatively quiet.) The Secretariat reiterated that the seniority principles were to be flexibly applied, and all agreed that there was tension between the desire to help Djibouti and the principle of inter-creditor equity. After a spirited discussion, Spain conceded. (The amounts involved were small, but Spain argued on principle.)

¶5. (SBU) The Djibouti delegation balked at signing the Agreed Minute, arguing that they wanted to exclude some debts to Spain and Germany, even though they had signed reconciliations that included these debts. The delegation stated that the loans were "odious", though the IMF Mission Chief indicated in a side conversation that they meant "invalid".

¶6. (SBU) After a very lengthy discussion, involved creditors agreed to a sentence indicating that debts could be removed from the agreement by mutual consent. When the Secretariat invited

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observers' comments, the U.S. delegation expressed misgivings about the sentence, as it would allow reopening numbers after a negotiation was completed - meaning that creditors could never be sure the Club was not being overly generous. (Note: On the other hand, agreeing to any exclusion after the fact could be seen as providing more generous treatment than the Club, which the U.S. has always supported. End note.) The Secretariat indicated that the sentence had been included before, in an agreement with Brazil, and that in any case the mutual consent provision made it legally ineffective.

¶7. (SBU) The Djiboutians refused to sign until the IMF told them that, if they did not, Djibouti's PRGF would be deemed off-track. In his concluding remarks, the Djiboutian Secretary-General indicated that the Agreed Minute represented only the first phase of the negotiations, and that they looked forward to clarifying issues in negotiations to complete the bilateral agreements.

STAPLETON